

# Cape Town takes off

Airlines, aircraft lessors, financiers and manufacturers are welcoming the entry into force of cross-border aircraft financing legislation that could provide a boost to the aerospace industry worth billions of dollars, by increasing security for lenders and cutting exposure fees for borrowers.

Five years after the Cape Town Convention was first drafted, it is finally coming into force on 1 March and, according to a recent report by the New York University Stern School of Business, the convention, and the International Registry of Mobile Assets that goes live in tandem with it, could save airlines as much as \$10 billion over five years.

From 1 March, banks, lessors and aircraft operators will be able to use the electronic database, managed by Aviareto – a joint venture between the Irish government and SITA – to record details of their transactions and, in the case of parties based in countries that have ratified the treaty, gain the protection of the convention. The registry provides a central repository to record sales and financial interests in mobile assets – airframes, aircraft engines and helicopters, and to establish the priority of interests in these holdings.

The USA's Export-Import Bank (Ex-Im) welcomes the treaty's entry into force, which comes four months after the eighth ratification – by Malaysia – necessary for its launch. Twenty eight countries originally signed up to the convention, but so far, Ethiopia, Ireland, Nigeria, Oman, Pakistan, Panama, the USA and now Malaysia are the only ones to have ratified it.

The US Ex-Im Bank had aimed to encourage other countries to follow suit by offering since 2003 as much as a one-third reduction in exposure fees on financing for US-manufactured aircraft to buyers in countries that had ratified the treaty.

"We have been trying to persuade other export credit agencies to adopt a similar approach," says Robert Morin, Ex-Im's vice president of transportation, adding that the US government has, in

parallel, been encouraging other countries to ratify the convention. Morin adds that it is particularly important that countries with a significant future role to play in the aerospace industry – notably China, India and Russia – ratify the convention.

The first day of March will be a landmark in the progress of the issue of cross-border financing, with commercial financiers likely to be more willing to do deals in countries that have ratified the convention. This will take the pressure off governments to provide financing through export credit agencies, Morin says. Engine makers stand to benefit significantly because of the huge increase in value of aircraft engines over the last few years. Under the convention, engines can be registered separately in the database, adding an extra level of security for lenders. Industry experts agree that it is likely to take some time for the financial benefits of the convention to kick in, and some predict initial teething problems as the change in law and launch of the registry run in parallel. But the overall mood is optimistic: "It is a huge step forward," says Scott Wilson, Pratt & Whitney's associate general counsel.

But European member states – with the exception of Ireland – risk missing out on these benefits because they have so far failed to ratify the convention. "It has achieved across the board support in principle, because it reduces the burden on governments to provide finance," says the UK's Society of British Aerospace Companies (SBAC). "More financiers will be willing to provide credit and it should lead to a more competitive market, reduce prices and open up

markets that may not have been accessible before." But, with the exception of Ireland, no EU member state has yet ratified the treaty, because of a "Gibraltar block" placed at EU level by the Spanish government.

Even when a decision is taken to ratify the convention, a lengthy parliamentary approval and consultation process will follow: "The treaty comes into force on 1 March and the process hasn't even begun yet," says the SBAC. "There doesn't seem to be the momentum in the UK government to advance ratification." While there will not be instant disadvantages for markets in which the treaty is not active, the long-term benefits UK industry will miss out on will be significant and with an aerospace industry that is important to the UK economy, ratification is important, the SBAC argues.

Some observers however doubt the effectiveness of the convention: "It is hard to know what effect the convention will have in practice. China has been a strong supporter, but it cannot be said whether the convention will make aircraft repossession easier in China because as yet there has been no attempted repossession, without consent, of an aircraft operated in China," says law firm Bird and Bird.

Others are more optimistic: the New York University report predicts that benefits could extend beyond the aerospace industry in some countries: "As the relatively large financial guarantees normally required for these types of purchases are no longer applicable for ratifying countries, the consequent improvement in government balance sheets should improve their overall credit rating and free up scarce capital for other uses."

## POTENTIAL RATIFICATION BENEFITS

Income Group	Savings (\$ billion)*
High income countries	5.5-6.0
Upper middle income countries	1.1-1.7
Lower middle income countries	2.3-3.5
Low income countries	1.0-1.5

\*Range of savings per country (based on Boeing 20-year demand forecasts)

Source: New York University, Stern School of Business. Based on access to secured financing

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